MEA-MFT
Public Schools, Public Service

EXHIBIT 3
DATE 3-30-09
HB HB679

**MEA-MFT OPPOSES HB679 (Rep. Stahl / 2009) &
ANY LEGISLATIVE PROPOSAL TO LIMIT DEFINED BENEFIT PENSION PROGRAM ENROLLMENT FOR CURRENT OR FUTURE EMPLOYEES OF THE STATE, LOCAL GOVERNMENTS OR SCHOOLS, AND FURTHER OPPOSES
ANY PROPOSAL TO REPLACE THE EXISTING PERS OR TRS DEFINED BENEFIT PROGRAMS WITH A DEFINED CONTRIBUTION PLAN FOR FUTURE HIRE EMPLOYEES**

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Before the House Committee on Taxation, March 30, 2009
Tom Bilodeau, MEA-MFT Research

Pursuant to recurring policy review by MEA beginning in the 1980s and later by the merged MEA-MFT, MEA-MFT has consistently opposed any effort to limit or otherwise displace Montana's defined benefit pension programs in favor of defined contribution deferred taxation investment plans. MEA opposed the initial voluntary and later mandatory conversion of TRS DB pension programming for university faculty in the later 1980s and early 1990s, various mandatory and voluntary DC replacement proposals affecting Montana PERS during the 1990s, and today opposes HB679 and any attempt to limit current PERS or TRS DB enrollment practices and imposition of a mandatory DC program for newly hired state or local government or school employees in the TRS or MPERA administered pension programs.

The Top 10 Disadvantages of Replacing Defined Benefit Plans with Defined Contribution Plans

Legislation has been proposed in several states to replace state and local government and/or teacher defined benefit (DB) retirement plans with 401(k)-type retirement accounts called defined contribution (DC) plans. The issue is not whether state and local employees should have access to DC or deferred taxation investment 457/403(b) plans as most state or local government or school employees – both nationally and in Montana -- already have access to these tax-advantaged individual savings and investment programs. The State of Montana, e.g., already offers a voluntary IRC 457 savings and deferred compensation program for state employees with combined holding of more than ¼ billion dollars as of December 31, 2008. Rather the question is whether defined benefit plans should be limited, eliminated, frozen for current personnel only and then fully replaced with defined contribution plans for all new hires.

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While recognizing tax-advantaged deferred compensation programs as an important and effective means of building needed individual savings for retirement income purposes, there are distinct and overwhelmingly positive advantages of maintaining state and local DB plans. Indeed, freezing enrollment in DB plans mandating new hires into a DC plan is a lose-lose situation for governments, their employees, and taxpayers for the reasons listed below.

1. Switching to a DC plan will cost state and local governments more over the short-term. Long-term cost savings under DC plans are uncertain at best. See the experience of West Virginia, Nebraska and Alaska. Or see "A Better Bang for the Buck: The Economic Efficiencies of DB Plans by the National Institute on Retirement Security, 2008 or the GAO report on Public Pension programs of 2007.

2. Almost all state and local DB plans provide disability and survivor benefits as well as retirement income. Switching to a DC plan would require employers to obtain these benefits from another source, and at a higher cost.

3. DB plans enhance the ability of state and local governments and schools to attract qualified employees and retain them throughout their careers. Switching to a DC plan would limit this ability, possibly producing or exacerbating labor shortages in key service areas by increasing employee turnover rates. Higher turnover rates result in increased training costs and lower levels of productivity that can, in turn, result in the need for a larger total workforce. With state, local and school salaries in Montana trailing competitive labor markets, a DC plan would only make Montana less competitive when seeking new, long-term, capable and career-committed workers to our public employee workforce.

4. DB plans help state and local governments and schools to better manage their labor force by providing flexible incentives that encourage employees to work longer or retire earlier, depending on the circumstances encountered by the employer and workforce, or as dictated by the nature of the job itself. Switching to a DC plan would limit this flexibility and make these incentives more expensive for the employer.

5. DB plans lower overall retirement benefit costs by pooling the risks of outliving retirement benefits and of investment losses over a relatively large number of participants. Switching to a DC plan would require each individual to bear these risks alone, consequently requiring higher contributions than if the risks were pooled. Numerous studies by EBRI and a variety of private investment companies (Milliman, Mercer, Segal, etc.) have demonstrated that centrally managed DB investment programs operate or lesser administrative cost-levels and generate greater return on investment.

6. DB plans earn higher investment returns and pay lower investment management fees than DC plans. Switching to a DC plan is likely to lower investment earnings used to finance retirement benefits and increase management costs, to the detriment of plan members.

7. DB plan investment earnings reduce future employer contributions. Switching to a DC plan would prevent state and local governments and schools from accessing plan earnings to help fund future retiree income needs.

8. DB plans provide secure retirement benefits based on a person's salary and period of service. Switching to a DC plan result in lower and less secure retirement benefits for many long-term governmental employees, including teachers, police officers, and firefighters, who constitute over half of state and local government workers.

9. DB plans help sustain state and local economies by providing adequate retirement benefits for a significant portion of the workforce. Switching to a DC plan may slow state and local economies, since a large number of retirees would likely receive lower retirement benefits. See "Pensionomics: Measuring the Economic Impact of State and Local Pension Plans," NIRS, 2009.

10. Switching to a DC plan for new hire employees divides the workforce on pension and deferred savings issues, undermining the capacity of workers to positively affect their retirement income planning and savings.

For these and other reasons, MEA-MFT opposes limitation or replacement of defined benefit pension programs for Montana's public sector workers. As we look to fulfill our Constitutional obligation to balance our responsibilities to actuarially fund our pensions, provide adequate retirement income needed by retirees in retirement and the recruitment and retention interests of our public employers, MEA-MFT would suggest that we are better served by fully engaging in the fully funded rigorous study of our pension systems proposed by HB645 (Roberts, co-signed by Rep. Stahl) rather than shooting from the hip and irresponsibly dismantling our DB pension programs as provided by HB679.

<u>Please vote "no" on HB679</u>.